

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

In the Matter of )

Price Cap Performance Review )  
for Local Exchange Carriers; )  
Treatment of Video Dialtone )  
Services Under Price Cap )  
Regulation )

CC Docket No. 94-1

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COMMENTS OF THE UNITED AND CENTRAL  
TELEPHONE COMPANIES

The United and Central Telephone ("United") companies respectfully comment in response to the Further Notice of Proposed Rule Making ("FNPRM") released on February 15, 1995. The Commission requests comment on establishing a separate price cap basket for video dialtone services ("VDT") and on other revisions to the price cap rules that such a separate basket might necessitate.

United agrees with the Commission's tentative conclusion that:

video dialtone service does not fit into existing price cap baskets given its unique characteristic of transmitting the video services of multiple program providers to end users on a common carrier basis.<sup>1</sup>

Therefore United supports the Commission's tentative determination that a separate price cap basket for VDT should be

1. FNPRM at para. 8 citing the Video Dialtone Reconsideration Order, FCC 94-269, released Nov. 7, 1994 at 222.

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established. The separate VDT basket is necessary to promote economic efficiency and ensure reasonable economic rates, and to avoid the risk of improper cross subsidization between VDT and other regulated interstate services.

However, United believes it is premature to rule that all of the "array of broadband services"<sup>2</sup> that the Commission expects to be offered should be included in the VDT basket. Until these broadband services are more particularly identified, it cannot be determined whether they have similar characteristics with VDT or with more traditional regulated services.

United agrees with the Commission that "in the absence of a long history of regulatory review and oversight of the video dialtone rates,"<sup>3</sup> the initial rates for the VDT separate basket should be established in accordance with the existing price cap rules for new services. Additionally, in the absence of a long history - indeed any history - of the LEC provision of VDT services, as opposed to the provision of existing price cap services where there is a long history, a productivity offset should not be included in the price cap formula applicable to the VDT basket.<sup>4</sup> VDT service is in its infancy and and there is no

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2. FNPRM at para. 12.

3. FNPRM at para. 18.

4. United's support of no productivity offset is limited to VDT services. Sprint Corporation, on behalf of United, has supported a higher productivity offset in this docket for existing price cap services. Sprint Corporation, including United, continues to believe and advocate that higher productivity factor offset for existing LEC price cap services is warranted.

history or experience upon which the Commission can base a productivity offset.<sup>5</sup> Because there has been no opportunity to observe the efficiency gains experienced by LECs providing this new and unique VDT service, the Commission should not adopt a productivity offset at this time.

Finally, United believes the price cap LECs that are out of sharing have significantly less opportunity to cross-subsidize between VDT and other interstate services, so separate rate of return monitoring is unwarranted. However, for companies not out of sharing, strict allocations are necessary to ensure that cross-subsidization between VDT and access does not occur.

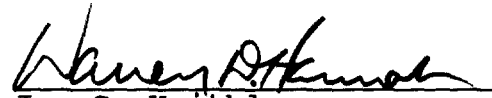
In conclusion, a separate basket should be established for VDT and initial rates for VDT should be established in accordance with existing price cap rules for new services. For price cap LECs that are out of sharing, separate rate of return monitoring between VDT and access is not required, but should be for sharing

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5. As the Commission notes, it recently declined to include a productivity offset in the price cap formula applicable to cable television rates because "a productivity offset should be based to the extent possible on observed efficiency gains experienced by the cable industry" and there was no record before the Commission on such gains. See, FNPRM at fn. 40.

LECs. And finally, other as yet unspecified new broadband services should not, at this time, be included in the separate VDT basket.

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April 17, 1995

## CERTIFICATE OF SERVICE

I, Melinda L. Mills, hereby certify that I have on this 11th day of April, 1995, sent via U.S. First Class Mail, postage prepaid, or Hand Delivery, a copy of the foregoing "Comments of the United and Central Telephone Companies" in the Matter of Price Cap Performance Review for Local Exchange Carriers; Treatment of Video Dialtone Services Under Price Cap Regulation, CC Docket No. 94-1, filed this date with the Acting Secretary, Federal Communications Commission, to the persons on the attached service list.

  
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